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SUBJECT: MASROUR BARZANI REPORTS BREAKTHROUGH IN KRG  
GOVERNANCE NEGOTIATIONS

Classified By: Charge d'Affaires, a.i., David M. Satterfield for reasons 1.4 (b) and (d).

1. (S) Masrour Barzani, Kurdistan Regional Government (KRG) President Masoud Barzani's son and advisor, telephoned DCM staff assistant on January 7 to relay that Kurdistan's two main political factions -- the Kurdistan Democratic Party (KDP) and the Patriotic Union of Kurdistan (PUK) -- had come to an agreement to consolidate governance of the KRG, eliminating the redundant regional ministries administered by the dueling political parties.

2. (S) Masrour Barzani highlighted that:

-- Irbil will serve as the KRG's capital, home to all regional ministries and the regional parliament.

-- The KRG ministries of Finance and Peshmerga Affairs are to be headed by KDP officials, while the Justice and Interior ministries will be administered by PUK officials. "Shadow ministers" from the opposing party will help ease the transition until ministries are fully united.

-- A PUK official will continue to lead the KRG Parliament, while the KDP will continue to hold the regional prime minister's office. Masoud Barzani will remain the regional president until at least 2007.

-- A formal, written agreement will be passed by the KRG Parliament immediately following the Eid al-Adha holiday -- on approximately January 15.

-- There will be a big push to unite the two parties' peshmerga forces in order to create a non-partisan regional security force.

3. (S) COMMENT: This announcement appears to have come as a surprise even to many Kurds within both the KDP and PUK politburo structures. Many of the Embassy's Kurdish interlocutors just a few weeks ago flatly stated that the merger was just "public relations." If indeed the merger takes place, it will probably dismay many of the Arab politicians negotiating Iraq's national government formation, as Kurdish unification would limit opportunities to exploit the fissures and mistrust between the KDP and PUK. A close examination of the merger details, however, reveals the serious weakness of the PUK. They backed down on their demands for limiting the Prime Minister position to a one-year rotation and for ensuring that no one party got control over both the Prime Minister and Finance Minister, and they ceded control over the unified peshmerga to the KDP. In addition, the agreement states that the new seat of the unified KRG will be in Irbil, a Barzani stronghold. Ongoing tensions may yet open up avenues for other groups, both inside and outside Iraq, to try to split the Kurdish support base for their own interests. END COMMENT.

KHALILZAD